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SUBJECT: IMF Briefs on Sudan's 2007 Budget

¶1. Summary: Visiting IMF officials recently briefed the international community on Sudan's national budget for 2007. Sudan's macroeconomic indicators are sound, with inflation stabilizing and growth continuing, although statistics remain unreliable. Further work, however, is needed in the areas of tax policy and data transparency. Fiscal restraint and monitoring growth in monetary supply remain important. The 2007 budget is ambitious, and projects a year-on-year inflation rate of 12 percent and a real growth rate of 12 percent; the oil sector is expected to expand by 60 percent during the year. The Government of Sudan values its economic gains of the past few years, and continues to work with the IMF to consolidate this success. End Summary.

¶2. On November 13, IMF Mission Chief for Sudan Enrique Gelbard briefed representatives of the international community on Sudan's national budget for FY 2007. Gelbard noted that Sudan had participated in a Staff Monitored Program (SMP) for several years; the IMF is "cautiously optimistic" that the Government of Sudan is committed to macroeconomic stability and fiscal transparency. His main points were as follows:

-- Sudan's macroeconomic indicators were sound since 2000, with inflation stabilizing and growth continuing. Nonetheless, economic data remained unreliable, although the Government is committed to improving both the quality of statistics available and transparency;

-- While inflation remains in single digits, it did increase late in 2006 due to administered price increases for fuel and transport. On a 12-month basis, the year will end with an inflation rate of roughly 13 percent. There is still room to contain inflation, if Sudan tightens fiscal and monetary policy;

-- Sudan would benefit from policy support for its fiscal regime. Productivity increases during 2006 were lower than anticipated; further action is needed on tax policy. Although revenues are increasing, the rate of increase is slowing, with exemptions eroding its base;

-- Indicators take time to respond to policy adjustments; nonetheless, Sudan needs to exercise fiscal restraint and monitor monetary growth closely;

-- The 2007 draft budget is ambitious; it includes scaling down revenue exemptions and rationalizing its taxation system, which is more complex than need be at present, with multiple grades. The IMF provided technical assistance in administering tax reforms; the government has endorsed these concepts and is implementing them gradually.

-- For 2007, the Government projects an average monthly inflation rate of 6.8 percent, with an end of period basis being approximately 12 percent. Although the Government seeks a lower rate, this will require a series of adjustments. Real growth for 2006 is projected to be 11 percent; the rate for 2007 is projected to be 12 percent. The oil sector will see a 46 percent expansion in 2007 due to increasing production (from 356,000 bpd to 520,000 bpd) and estimated high market prices. The 2006 weighted production was

356,000 barrels per day; this is projected to increase to 520,000 for 2007.

-- The Government's spending plans for 2007 are ambitious, especially in the area of capital spending. The IMF notes that the Government should avoid incurring a non-oil fiscal deficit.

Gov't Values Gains; is Receptive to IMF Advice

13. According to Gelbard, the Sudanese government values the macroeconomic gains of the past several years, and is receptive to the recommendations of the IMF team. Many in the Government want to reform more, although there are political restraints as to how far and how fast further reforms can be made.

Q and A Session Raises further Budget Information

14. In response to questions posed, Gelbard confirmed that the 2007 national budget has line items for the East and for Darfur in keeping with the Eastern Sudan and Darfur Peace Agreements. Asked about central bank reforms, he noted that the Comprehensive Peace Agreement (CPA) called for a central, federal banking facility with a Southern branch that was fully related. He added that Sudan is seen as having a single banking system with one currency. The IMF is providing technical assistance to the central bank, including its Southern portion. In response to a question regarding budgetary support for pro-poor programs, Gelbard said that decreasing the petroleum subsidy was not an anti-poor policy, provided savings were used for pro-poor spending, such as on public transport subsidies.

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